

BSE SENSEX	S&P CNX
32,433	10,167
Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	57.8 / 0.9
52-Week Range (INR)	1411 / 932
1, 6, 12 Rel. Per (%)	-1/-16/-31
Avg Val, INRm	545
Free float (%)	100.0

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	2.6	2.8	4.0
EBITDA	0.8	0.9	2.0
PAT	1.3	1.3	2.2
EPS (INR)	24.8	26.5	43.4
Gr. (%)	6.2	6.6	64.2
BV/Sh (INR)	266.4	262.0	284.1
RoE (%)	10.2	10.0	15.9
RoCE (%)	10.0	9.7	15.4
P/E (x)	45.6	42.8	26.1
P/BV (x)	4.3	4.3	4.0

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,133 TP: INR1,300(+15%)
Buy

Only a few inches away from the launch of Options...

...focused on participation enhancement and not revenue

- **Yield-led operational miss:** MCX's 2QFY18 revenue stood at INR673m (below our est. of INR706m). Yield for the quarter seems to have declined ~3%, driving the revenue miss. Operating expenses were INR466m, in line with our estimate of INR468m, and stable sequentially. Thus, EBITDA stood at INR207m (30.7% margin, -7.9pp YoY), below our estimate of INR238m (33.7% margin, -4.9pp YoY). PAT of INR292m (below est. of INR363m) was dragged further lower by other income of INR243m (17% below est.).
- **Volumes finally seeing uptick:** Volumes were down 14.0% YoY in 2QFY18. Volumes have been subdued for the last three quarters, dragged mainly by bullion – Gold (-39% YoY) and Silver (-34% YoY) – due to demonetization and then GST-related uncertainty. Contribution from Gold and Silver combined was 29% of overall volumes (39% in 2QFY17). However, QoQ growth of 17.0% is encouraging, signifying an end to downward pressure on volumes.
- **Zero pricing on Options leads to downward revision:** MCX announced that it will launch 1kg Gold Options on 17 October 2017, with approvals for other Options expected to be in place by year-end. While we estimate volume uptick because of Options starting 3Q, MCX would refrain from levying charges till a deeper level of participation is achieved. The absence of revenue from Options, along with the miss in 2Q, has led to a cut of 11/3% in FY18/19E. We continue to be encouraged by the pace of reforms, though.
- **Valuation view:** MCX has retained its market leadership position, with a share of 80-90% over FY09-17, even in the most turbulent months of FY13-15, when the parent's existence was in deep waters on issues of fraud around NSEL. With the SEBI's reforms underway, we see volumes on the path to a significant recovery, from new products and participants. Operating margin on incremental volumes at ~80% would boost operating profits for MCX. We expect earnings CAGR of 32% over FY17-19. Our price target is INR1,300, which discounts forward earnings by 30x. **Buy.**

MCX Quarterly Performance

	FY17				FY18				FY17		FY18E			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2,641	2,812	Est.	Var.	206	(%/bp)
Sales	676	652	686	626	592	673	748	800	2,641	2,812	706	(4.7)	706	(4.7)
Q-o-Q Gr. (%)	18.7	7.8	5.1	-8.7	-5.5	13.6	11.2	7.0	12.4	6.5	19.3	-564bp	19.3	-564bp
Staff Costs	143	144	198	160	178	178	178	178	644	713	178	0.5	178	0.5
Other expenses	265	257	296	335	282	288	294	304	1,116	1,146	291	(1.0)	291	(1.0)
Depreciation	49	42	45	49	48	48	48	48	186	191	46	4.6	46	4.6
EBIT	219	209	148	82	84	158	227	270	695	762	192	(17.3)	192	(17.3)
Margins (%)	32.4	32.1	21.5	13.1	14.2	23.6	30.4	33.8	26.3	27.1	27.1	-360bp	27.1	-360bp
Other Income	308	302	312	243	277	243	275	288	1,164	1,083	293	(17.1)	293	(17.1)
PBT bef. Exceptional items	527	511	459	325	361	401	502	559	1,857	1,845	484	(17.2)	484	(17.2)
Tax	152	134	119	106	98	110	125	140	512	473	121	(9.3)	121	(9.3)
Rate (%)	28.9	26.3	26.0	32.6	27.2	27.3	25.0	25.0	27.5	25.6	25.0	237bp	25.0	237bp
PAT	375	376	339	219	263	292	377	419	1,346	1,372	363	(19.8)	363	(19.8)
Q-o-Q Gr. (%)	30.3	0.5	-9.9	-35.5	20.0	11.0	29.2	11.2	221.7	4.8	38.4		38.4	
EPS (INR)	6.5	7.4	6.7	4.3	5.1	5.7	7.4	8.2	26.4	26.9	7.1	(19.8)	7.1	(19.8)
Total volumes (INR t)	16.0	16.4	13.9	12.4	12.0	14.1	16.3	17.5	58.7	59.8	14.1		14.1	
Q-o-Q Gr. (%)	7.3	2.3	-15.2	-10.3	-3.4	17.0	15.6	7.7			17.0		17.0	
Y-o-Y Gr. (%)	17.7	10.3	6.4	-16.5	-24.8	-14.0	17.1	40.7	4.1	2.0	-14.0		-14.0	

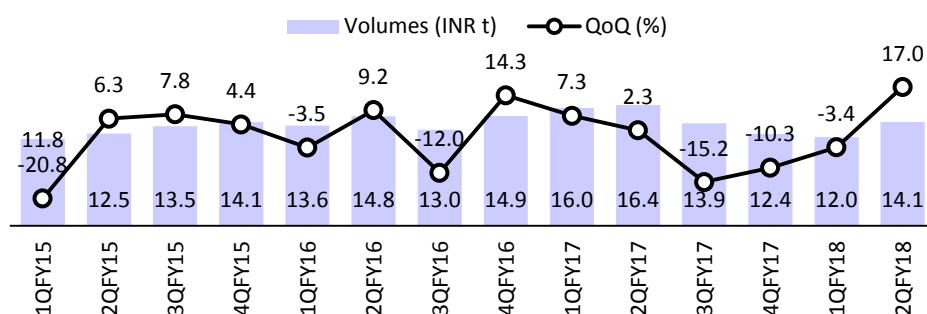
E: MOSL Estimates

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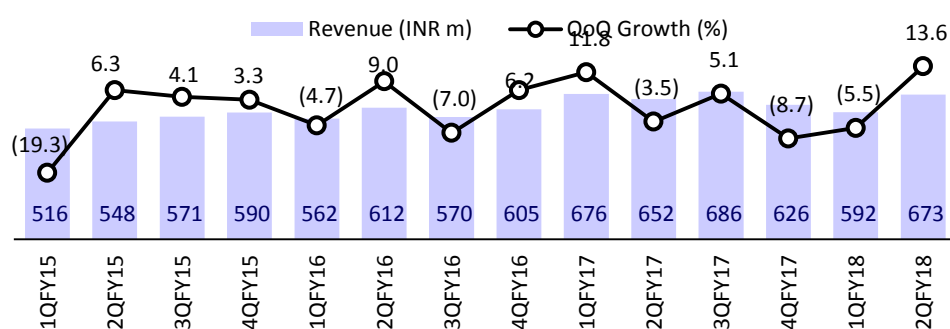
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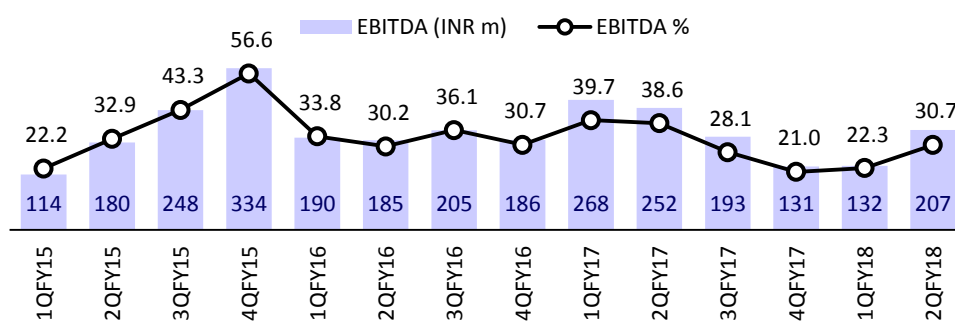
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Exhibit 1: Volumes up 17% QoQ, after three quarters of decline

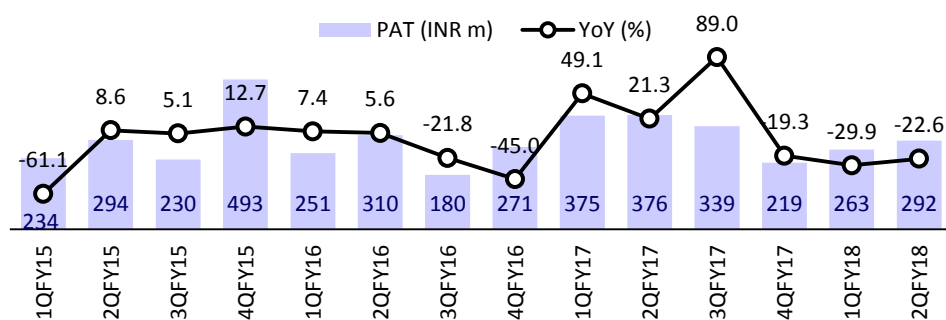
Source: Company, MOSL

Exhibit 2: Volume-driven revenue growth (but slight miss because of lower realization)

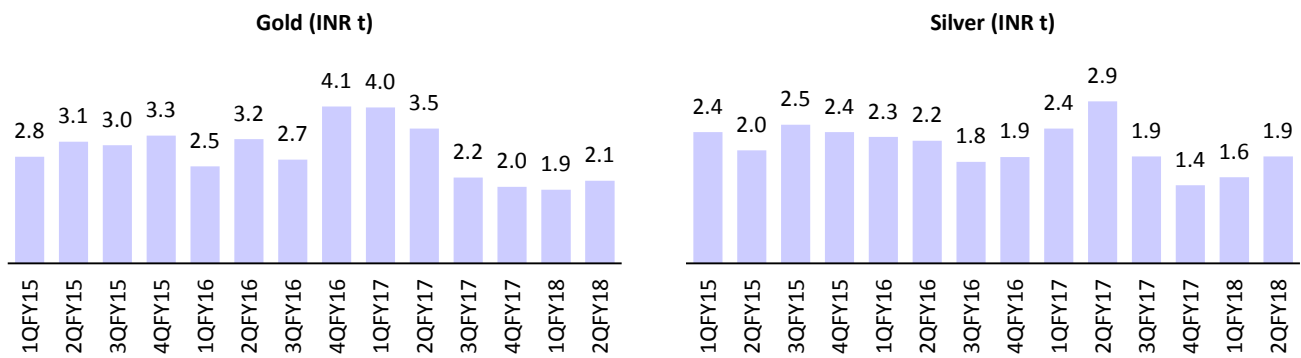
Source: Company, MOSL

Exhibit 3: Stable cost structure over the last couple of quarters

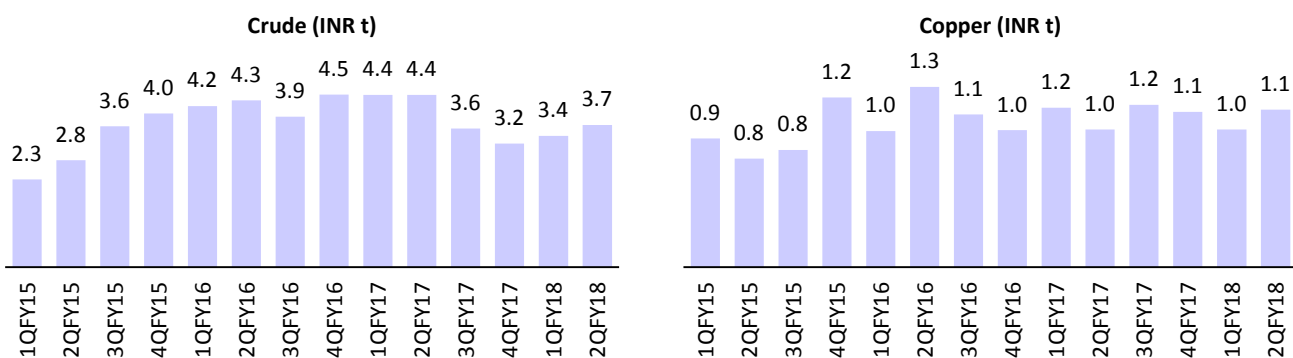
Source: Company, MOSL

Exhibit 4: Lower yield on cash aggravated the realization-led miss

Source: Company, MOSL

Exhibit 5: Bullion volumes were severely impacted by demonetization and GST

Source: Company, MOSL

Exhibit 6: Crude volumes declined by 17% YoY, while Copper volumes grew by 15% YoY

Source: Company, MOSL

Takeaways from Management Commentary

- **Faster pace of reforms:** The quarter has seen multiple developments on the regulatory front, which augers well for MCX. The SEBI cleared the launch of Options, MCX developed several commodity-related indices, AIFs were allowed to take exposure in commodities, and there was an appeal made to allow banks to distribute commodity products and allow clearing services.
- **Volumes pick-up encouraging:** Volumes have been subdued post demonetization and GST. However, 2Q saw a sequential increase in volumes, which was an encouraging sign. While Bullion is still not at the levels seen pre-demonetization, an uptick in base metals has been providing support.
- **Not charging on Options:** MCX will launch Options on 1kg Gold futures on 17 October 2017. It expects approvals for the rest of the Options to come in by the end of the financial year. The focus for MCX will be on increasing participation and launching a suite of products. It hence won't be charging anything on Options in the beginning.
- **Positive on the contribution of Options:** While only one contract would be allowed on Options in the beginning, roughly nine contracts would be traded next year. MCX expects 20-25% of total volume to be added by the full-fledged launch of Options in a span of 2-3 years.
- **Keen on currencies:** Once exchanges are allowed to trade other asset classes, MCX would be keen on making an entry into currencies. It may also look at other segments, but will take that call only once an announcement comes from the SEBI.

Valuation and view

- **Market leadership in winner-takes-all business:** MCX has retained its market leadership position, with a share of 80-90% over FY09-16. Even in the most turbulent of months during FY13-14, when the parent's existence was in deep waters on issues of fraud around National Spot Exchange (NSEL), the exchange managed to retain its share. Additionally, it has remained without a fulltime MD & CEO since May 2014 when Mr Manoj Vaish resigned after just three months. This is a reflection of the winner-takes-all nature of the business model.
- **Monopoly share in multiple commodities takes care of concentration risk:** MCX's golden run in terms of volumes came at the time of significant run-up in gold and silver prices in FY12 and FY13. That was also perceived to be a risk, given that the share of volumes from these two commodities had exceeded 70%. However, presence in multiple commodities helps avert the concentration risk, and this was evidenced in FY15, when action in oil prices drove energy to exceed gold as the largest traded commodity at MCX by value.
- **All eyes on reforms, as SEBI-FMC merger is complete:** SEBI's merger with FMC is now complete, paving the way for much awaited reforms in the ecosystem. The upside for MCX may yet be partly a function of reports around approvals to competition and entry of a credible global exchange materializing. We don't expect these at one-go or immediately, but rather in a gradual, phased manner over the course of the next calendar year. SEBI already has the ball rolling in terms of reform and expects universal licenses to be active through the course of the year. MCX could, in the meanwhile: [1] get a head start, and [2] strengthen itself with investment from CME.
- **Volume reversal to pre-CTT levels is our base case:** Our base case assumes gradual recovery in volumes to INR350b-400b in FY19E, closer towards pre-commodities transaction tax (CTT) average daily turnover of INR450b-500b. This compares with current ADT of INR200b-250b.
- **Volumes have taken a temporary hit:** Volumes suffered in 2HFY17 on account of demonetization's impact on gold volumes. Post this, a failure in pick-up has resulted out of tepid activity in the physical market. This time, it is compounded by uncertainty posed by GST. That said, 2QFY18 has seen a good pick-up in terms of volume. While bullion remains lower than pre-demonetization levels, a good contribution has been made by a rally in base metals. Options are on the verge of being launched, and will result in a further volume boost once they start trading.
- **Multiplier effect on operational earnings from operating leverage, Buy:** From 3QFY18, Options will also be launched, a key trigger for volumes. This should kick start the recovery in volumes, that should continue with the entry of new participants such as FIs and new products such as indices. This drives our expectation of healthier revenue growth over FY17-20 (35%) and consequently driving earnings growth (45%). Our price target of INR1,300 discounts FY19E earnings by 30x, implying 15% upside. **Buy.**

Key triggers

- Pick-up in volume led by the introduction of new products like Options / Indices
- Introduction of new participants like Banks / FIs
- High volatility in key commodities like Bullion / Crude

Key risk – increased competition from equity exchanges

One of the implications of FMC's merger with SEBI is that stock exchanges will be able to become universal exchanges, where equities, debt instruments and currencies are traded under the same roof as commodity derivatives. Stock exchanges already have depositories and clearing corporations that will cater to the needs of commodity traders as well. If NSE enters the commodities segment, MCX could see stiff competition, which may impair both market share and profit margins.

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Sales	5,160	3,407	2,225	2,349	2,641	2,812	4,044	4,824
Change (%)	-1.9	-34.0	-34.7	5.6	12.4	6.5	43.8	19.3
EBITDA	3,331	1,457	876	766	844	931	1,969	2,611
EBITDA Margin (%)	64.6	42.8	39.4	32.6	32.0	33.1	48.7	54.1
Depreciation	307	343	259	246	186	191	191	194
EBIT	3,023	1,114	616	521	658	740	1,778	2,417
Interest	0	11	14	0	2	0	0	0
Other Income	1,259	993	1,098	977	1,164	1,083	1,176	1,231
Extraordinary items	0	0	0	-667	0	0	0	0
PBT	4,282	2,097	1,701	831	1,821	1,823	2,954	3,648
Tax	1,065	569	450	413	512	473	738	911
Tax Rate (%)	24.9	27.1	26.5	49.7	28.1	25.9	25.0	25.0
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	3,217	1,528	1,251	418	1,309	1,350	2,216	2,736
Adjusted PAT	3,217	1,528	1,251	418	1,309	1,350	2,216	2,736
Change (%)	12.4	-52.5	-18.1	-66.6	213.0	3.1	64.2	23.5

Balance Sheet						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	510	510	510	510	510	510	510	510
Reserves	11,058	10,931	11,512	11,529	13,078	12,853	13,979	16,277
Net Worth	11,567	11,441	12,022	12,039	13,588	13,363	14,489	16,787
Debt	569	2,169	2,214	2,162	2,125	2,183	2,183	2,125
SGF	0	1,720	1,871	1,879	1,705	1,731	1,731	1,705
Total Capital Employed	12,136	13,610	14,236	14,201	15,713	15,546	16,672	18,912
Net Fixed Assets	2,044	1,735	1,553	1,430	1,633	1,748	1,818	1,766
Capital WIP	0	0	0	0	0	0	0	0
Investments	10,682	10,898	12,927	10,741	11,948	13,296	13,296	11,972
Current Assets	5,131	4,782	3,764	5,997	5,077	5,152	6,454	9,128
Debtors	69	90	107	42	28	88	122	114
Cash & Bank	3,475	3,417	2,655	5,003	3,890	3,708	4,554	7,133
Loans & Adv, Others	1,587	1,275	1,002	952	1,159	1,356	1,777	1,881
Curr Liabs & Provns	5,721	3,805	4,007	3,967	2,945	4,650	4,896	3,954
Net Current Assets	-590	977	-243	2,030	2,132	502	1,558	5,174
Total Assets	12,136	13,610	14,236	14,201	15,713	15,546	16,672	18,912

Financials and Valuations

Ratios								
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR)								
EPS	58.6	30.0	24.6	23.4	24.8	26.5	43.4	53.7
Cash EPS	69.1	36.9	29.6	13.0	29.3	30.2	47.2	57.4
Book Value	226.8	225.4	235.8	236.1	266.4	262.0	284.1	329.2
DPS	0.5	10.2	10.2	0.0	15.3	20.4	20.4	20.4
Payout (incl. Div. Tax.)	0.9	39.0	48.5	0.0	70.7	91.4	55.7	45.1
Valuation(x)								
P/E				48.5	45.6	42.8	26.1	21.1
Cash P/E				87.0	38.6	37.5	24.0	19.7
Price / Book Value				4.8	4.3	4.3	4.0	3.4
EV/Sales				18.9	17.7	16.2	11.0	9.2
EV/EBITDA				58.0	55.3	48.8	22.7	17.0
Dividend Yield (%)				0.0	1.6	2.1	2.1	2.1
Profitability Ratios (%)								
RoE	29.9	13.3	10.7	3.5	10.2	10.0	15.9	17.5
RoCE	28.5	12.8	10.4	8.8	10.0	9.7	15.4	17.0
RoIC	0	0	0	0	0	0	0	0
Turnover Ratios (%)								
Fixed Asset Turnover (x)	28.2	19.3	12.5	12.9	14.3	14.5	19.4	21.7
Debtors (No. of Days)	5	10	17	7	4	11	11	10
Leverage Ratios (%)								
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Statement								
	(INR Million)							
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Adjusted EBITDA	3,331	1,457	876	766	844	931	1,969	2,611
Non cash opr. exp (inc)	-79	876	0	0	0	0	0	0
(Inc)/Dec in Wkg. Cap.	-1,941	-1,565	503	22	-1,251	1,505	-209	-961
Tax Paid	-782	-384	-259	-62	-197	-163	-418	-595
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	529	385	1,120	727	-604	2,274	1,341	1,054
(Inc)/Dec in FA & CWIP	-462	-59	-9	-200	-345	-237	-261	-287
Free cash flows	68	325	1,111	527	-950	2,036	1,080	767
(Pur)/Sale of Invt	1,910	586	-1,214	5,174	1,810	-551	856	915
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	1,448	527	-1,222	4,974	1,464	-789	595	628
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	0	0	0	0	0	0	0	0
Interest Paid	0	0	0	-14	0	-2	-2	-2
Divd Paid (incl Tax) & Others	-2,134	-1,133	0	0	-925	-662	-1,088	-1,344
CF from Fin. Activity	-2,134	-1,133	0	-14	-925	-664	-1,090	-1,345
Inc/(Dec) in Cash	-156	-221	-103	5,687	-65	821	847	336
Add: Opening Balance	3,124	3,475	3,417	2,655	5,003	3,890	3,708	4,554
Closing Balance	2,968	3,254	3,315	8,342	4,937	4,710	4,554	4,891

Corporate profile

Company description

MCX, India's largest and only listed exchange, commenced operations on 10 November 2003. It is an electronic commodity futures exchange, with a scalable technology framework and disaster recovery site (DRS) for end-to-end functioning of systems and network. MCX had 84% market share in terms of the value of commodities traded in the futures market in FY15. MCX has a pan India presence, with over 2,000 members, and operations through 486,700+ terminals, across 1,879 cities and towns.

Exhibit 1: Sensex rebased



Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	0.0	0.0	0.0
DII	33.6	35.8	39.8
FII	30.9	25.8	19.6
Others	35.5	38.4	40.6

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
KOTAK MAHINDRA BANK LIMITED	15.0
AXIS MUTUAL FUND (HOLDING UNDER VARIOUS SCHEMES)	4.1
JHUNJHUNWALA RAKESH RADHESHYAM	3.9
RELIANCE MUTUAL FUND (HOLDING UNDER VARIOUS SCHEMES)	3.0
IDFC PREMIER EQUITY FUND	2.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Saurabh Chandra	Chairman
Mrugank Paranjape	Managing Director & CEO
Ashwin Patel	Company Secretary
Parveen Kumar Singhal	President & Whole-time Dir.

Source: Capitaline

Exhibit 5: Directors

Name	Name
Arun Bhargava	Prithvi Haldea
Ajay Kumar	Amit Goela
Chengalath Jayaram	Hemang Raja
M A K Prabhu	Madhu Jayakumar
Padma Raghunathan	Arun Nanda
Govinda Rao Marapalli	PRAVIN TRIPATHI
S K Mitra	

*Independent

Exhibit 6: Auditors

Name	Type
Rathi & Associates	Secretarial Audit
Shah Gupta & Co	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	26.5	30.5	-13.3
FY19	43.4	43.8	-0.9
FY20	53.7	54.7	-2.0

Source: Bloomberg

NOTES

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SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice and also sought personal hearing. The matter is currently pending.

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